

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**TOIVOLA, MICHIGAN**

**FINANCIAL STATEMENTS**  
**WITH SUPPLEMENTAL INFORMATION**

**June 30, 2005**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Elm River Township School District  
Toivola, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elm River Township School District as of and for the year then ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Elm River Township School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Elm River Township School District as of June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion analysis and budgetary comparison information on pages 6 through 10 and 23, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Elm River Township School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

October 6, 2005



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education  
Elm River Township School District  
Toivola, Michigan

We have audited the financial statements of Elm River Township School District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Elm River Township School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Elm River Township School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the school district's board of education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

October 6, 2005

**Elm River Township School District**  
**Management's Discussion and Analysis**  
**June 30, 2005**

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This section of Elm River Township School District's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2005. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

**Overview of the Financial Statements**

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

*Statement of Net Assets and the Statement of Activities*

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in the School Food Service fund.

## Overview of the Financial Statements - Continued

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund meets this requirement

Non-major Funds: In the basic financial statements, the non-major fund is represented by one column. This is a smaller fund. Detailed information about the non-major fund can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the general fund.
- Other supplementary information provides detailed information about the General and School Food Service Funds.

## Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 191,392	\$ 200,541	\$ (9,149)
Expenditures/Transfers	\$ 199,941	\$ 190,531	\$ 9,410
Fund Balance	\$ 102,498	\$ 111,047	\$ (8,549)
School Food Service Fund:			
Revenues/Transfers	\$ 20,121	\$ 18,913	\$ 1,208
Expenditures/Transfers	\$ 19,814	\$ 19,195	\$ 619
Fund Balance	\$ 1,504	\$ 1,197	\$ 307

General Fund - Due to changes in the Transportation Agreement in 2004/2005, General Fund received less revenue from other districts in comparison to previous years.

School Food Service Fund - The school did not incur any expenditures that exceeded the budgeted amounts.

**Elm River Township School District**  
**Management's Discussion and Analysis**  
**June 30, 2005**

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**Overview of the Financial Statements - Continued**

**Summary of Net Assets**

	2005	2004
Assets		
Current and other assets	\$ 151,283	\$ 157,590
Capital assets - Net of accumulated depreciation	31,891	34,380
Total Assets	<u>\$ 183,174</u>	<u>\$ 191,970</u>
Liabilities		
Current liabilities	\$ 47,281	\$ 45,346
Total Liabilities	<u>47,281</u>	<u>45,346</u>
Net Assets		
Invested in property and equipment - net of related debt	31,891	34,380
Unrestricted	104,002	112,244
Total net assets	<u>135,893</u>	<u>146,624</u>
Total Liabilities and Net Assets	<u>\$ 183,174</u>	<u>\$ 191,970</u>

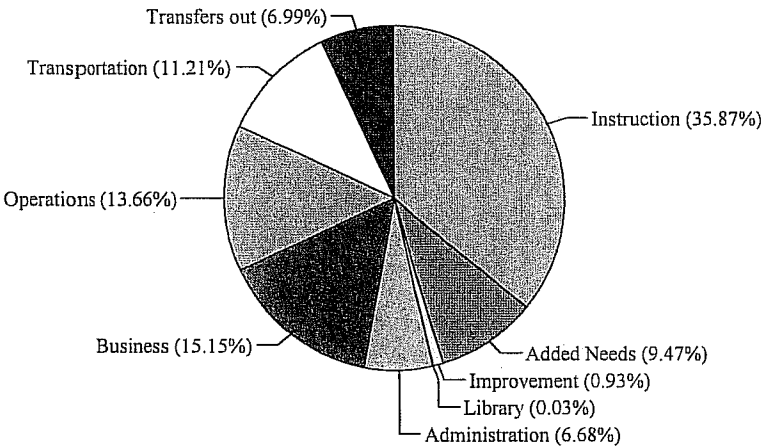
**Results of Operations in Governmental Activities**

	2005	2004
Program Revenue:		
Charges for services	\$ 1,887	\$ 1,077
Grants and contributions	26,742	25,585
General Revenue:		
Property taxes	159,518	154,877
Other	9,396	23,843
Total Revenue	<u>197,543</u>	<u>205,382</u>
Functions/Program Expenses		
Instruction	92,763	83,014
Support services	95,697	88,614
School food services	19,814	19,195
Total Expenses	<u>208,274</u>	<u>190,823</u>
Change in Net Assets	(10,731)	14,560
Net Assets - Beginning	146,624	132,064
Net Assets - Ending	<u>\$ 135,893</u>	<u>\$ 146,624</u>

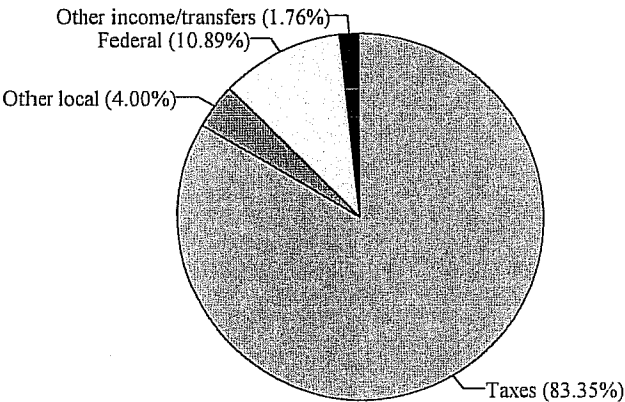


The following charts highlight the District's General Fund activities:

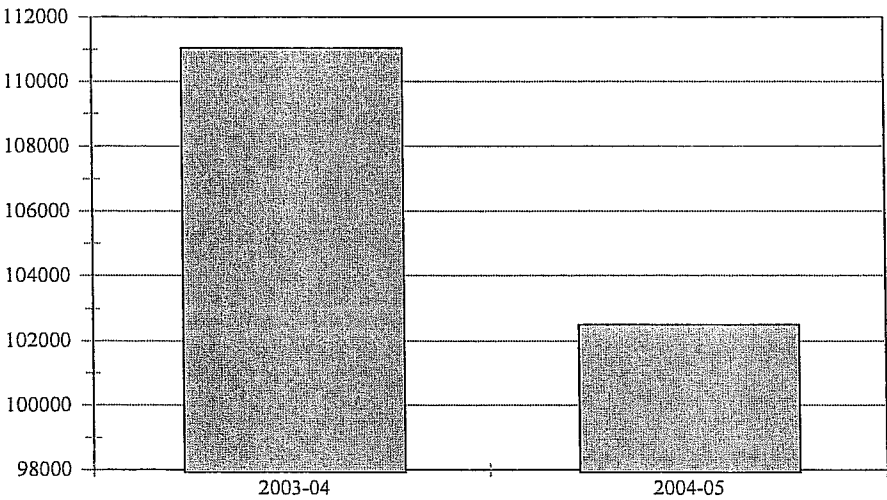
2004-05 Expenditures



2004-05 Revenues



Fund Balance Comparison



### **Changes to Budget and Comparison to Actual Results**

The original budget is required to be adopted before the beginning of the fiscal year by State law. For this fiscal year, the original budget was adopted on June 29, 2004. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances, therefore the District amended it's budget twice during the fiscal year. There were no significant variances for the fiscal year ended June 30, 2005 in the general fund.

### **Capital Assets**

The District's net investment in capital assets did not change during the fiscal year.

Additional information on the District's capital assets can be found on page 19 of this report.

### **Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations**

The District does not receive State Aid due to declining pupil count. Elm River Township School District operates on millage levy from non-homestead properties, with State Education Tax levy from homestead properties going to Michigan State Aid Fund and remaining there.

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Elm River Township School.

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS**

**June 30, 2005**

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 140,853
Taxes receivable	<u>10,430</u>
TOTAL CURRENT ASSETS	<u>151,283</u>
NON-CURRENT ASSETS:	
Capital assets	49,761
Less: Accumulated depreciation	<u>(17,870)</u>
TOTAL NON-CURRENT ASSETS	<u>31,891</u>
TOTAL ASSETS	<u>\$ 183,174</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	\$ 2,723
Accrued expenses	4,751
Due to other governmental units	<u>39,807</u>
TOTAL CURRENT LIABILITIES	<u>47,281</u>
NON-CURRENT LIABILITIES	
TOTAL LIABILITIES	<u>47,281</u>
NET ASSETS	
Invested in capital assets, net of related debt	31,891
Unreserved	<u>104,002</u>
TOTAL NET ASSETS	<u>135,893</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 183,174</u>

The accompanying notes to financial statements are an integral part of this statement.

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2005**

	<u>Program Revenues</u>			<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<b><u>FUNCTIONS/PROGRAMS</u></b>				
Government Activities:				
Instruction and instructional support	\$ 92,763	\$ -	\$ 22,478	\$ (70,285)
Support services	95,697	-	-	(95,697)
School service	19,814	1,887	4,264	(13,663)
Total Governmental Activities	<u>\$ 208,274</u>	<u>\$ 1,887</u>	<u>\$ 26,742</u>	<u>(179,645)</u>
General Revenues:				
Taxes				
Property taxes, levied for general operations				159,518
State school aid - unrestricted				2
Interest and investment earnings				1,763
Other				4,267
Transfers				3,364
Total general revenues and transfers				<u>168,914</u>
Change in Net Assets				(10,731)
Net Assets - Beginning				<u>146,624</u>
Net Assets - Ending				<u>\$ 135,893</u>

The accompanying notes to financial statements are an integral part of this statement.

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**June 30, 2005**

	<u>General</u>	<u>Other Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 139,349	\$ 1,504	\$ 140,853
Taxes receivable	<u>10,430</u>	<u>-</u>	<u>10,430</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 149,779</u></u>	<u><u>\$ 1,504</u></u>	<u><u>\$ 151,283</u></u>
<b>LIABILITIES:</b>			
Accounts payable	\$ 2,723	\$ -	\$ 2,723
Accrued expenses	4,751	-	4,751
Due to other governmental units	<u>39,807</u>	<u>-</u>	<u>39,807</u>
<b>TOTAL LIABILITIES</b>	<u>47,281</u>	<u>-</u>	<u>47,281</u>
<b>FUND BALANCES:</b>			
Unreserved	<u>102,498</u>	<u>1,504</u>	<u>104,002</u>
<b>TOTAL FUND BALANCES</b>	<u>102,498</u>	<u>1,504</u>	<u>104,002</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 149,779</u></u>	<u><u>\$ 1,504</u></u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Net assets of governmental activities

31,891  
\$ 135,893

The accompanying notes to financial statements are an integral part of this statement.

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUE, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2005**

	General Fund	Other Non-major Governmental Funds	Totals
REVENUES			
Local sources	\$ 167,175	\$ 1,887	\$ 169,062
State sources	2	983	985
Federal sources	20,851	3,281	24,132
Total revenues	<u>188,028</u>	<u>6,151</u>	<u>194,179</u>
EXPENDITURES			
Instruction	90,653	-	90,653
Supporting services	95,318	-	95,318
School service	-	19,814	19,814
Total expenditures	<u>185,971</u>	<u>19,814</u>	<u>205,785</u>
Excess (deficiency) of revenue over expenditures	<u>2,057</u>	<u>(13,663)</u>	<u>(11,606)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in (out)	(13,970)	13,970	-
Incoming transfers - other schools	3,364	-	3,364
Total other financing sources (uses)	<u>10,606</u>	<u>13,970</u>	<u>(3,364)</u>
NET CHANGE IN FUND BALANCE	(8,549)	307	(8,242)
FUND BALANCES - BEGINNING OF YEAR	<u>111,047</u>	<u>1,197</u>	
FUND BALANCES - END OF YEAR	<u>\$ 102,498</u>	<u>\$ 1,504</u>	
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation			<u>(2,489)</u>
Change in net assets of Governmental Activities			<u>\$ (10,731)</u>

The accompanying notes to financial statements are an integral part of this statement.

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Elm River Township School District conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the more significant policies:

**REPORTING ENTITY**

The School District is governed by an elected five-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

**DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS**

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, & FINANCIAL STATEMENT PRESENTATION**

**District-Wide Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Amounts reported as program revenue are (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

The School District reports the following governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Service Fund.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. The School District does not have any investments.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds."

Property taxes receivables are shown net of an allowance for uncollectible amounts. Property taxes are levied as of December 1 and become due on February 14.

The 2004 non-homestead and homestead taxable valuation of the District amounted to \$9,172,126 and \$2,765,078, respectively. Ad valorem taxes of \$159,518 were levied for operating purposes (17.3916 mills) based on non-homestead taxable valuation. These amounts are recorded as revenue on the District's records in and for the fiscal year ended June 30, 2005.



**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Inventory - The District utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Fixed Assets - Fixed assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the district-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

**BUDGETARY DATA**

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Each May, the School Board prepares a proposed operating budget for the fiscal year commencing the following July 1.
2. The Board reviews the proposed budget, which includes proposed expenditures and the means of financing them.
3. Pursuant to statute, the proposed budget as approved by the Board, is submitted to the community at a public hearing, at which time public comment is invited. The final budget is formally adopted at the next board meeting.
4. The Board reviews the budget quarterly during the fiscal year and makes formal amendments when appropriate.
5. Budget appropriations lapse at the end of the fiscal year.

The budget for the year ended June 30, 2005 has been amended by the Board since its original adoption in June of 2004.

**ENCUMBRANCES**

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The District does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

**NOTE B - CASH AND INVESTMENTS**

**CASH DEPOSITS**

At year-end, the School District's deposits were reported in the basic financial statements as governmental activities as cash equivalents in the amount of \$140,853.

At June 30, 2005, the book value of the School District's demand deposits, consisting primarily of checking and savings accounts, certificates of deposit and other cash equivalents, was \$140,853 with a corresponding bank balance of \$141,755. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, approximately \$119,442, representing approximately 84% of the District's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$119,442 was insured and \$22,313 was neither insured or collateralized.

**NOTE C - FIXED ASSETS**

Fixed Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/04	Additions	Subtractions and Adjustments	Balance 06/30/05
Land	\$ 11,740	\$ 0	\$ 0	\$ 11,740
Fixed assets being depreciated:				
Building and additions	8,141	0	0	8,141
Improvements other than building	5,950	0	0	5,950
Equipment and furniture	21,430	0	0	21,430
Buses	42,500	0	40,000	2,500
Subtotal	78,021	0	40,000	38,021
Accumulated depreciation:				
Building and additions	1,197	389	0	1,586
Improvements other than building	2,009	280	0	2,289
Equipment and furniture	12,175	1,508	0	13,683
Buses	40,000	312	40,000	312
Subtotal	55,381	2,489	40,000	17,870
Net capital assets being depreciated	22,640	(2,489)	0	20,151
Net capital assets	<u>\$ 34,380</u>	<u>\$ (2,489)</u>	<u>\$ 0</u>	<u>\$ 31,891</u>

Depreciation expense was charged to governmental activities of the School District as follows:

Instruction	\$ 2,110
Operations	379
TOTAL	<u>\$ 2,489</u>

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

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**NOTE D - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2005 are as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
School Service	\$ 13,970	General	\$ 13,970

**NOTE E - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least ten years of credited service; or after age sixty with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by the state statute to contribute 12.99% of covered compensation through September 30, 2004 and 14.87% of covered compensation to the Plan for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2005 was \$12,728, which consisted of \$11,493 from the District and \$1,235 from employees electing the MIP option. These represent approximately 14.251% and 1.532% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2004 was approximately \$80,646. The District's total payroll was approximately \$117,911.

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

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**NOTE E - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)**

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among MPSERS and employers. The MPSERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2004 for the MPSERS as a whole, the actuarial accrued liability was \$44.8 billion. The pension plan net assets were \$36 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 80.36%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2005 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPSERS' September 30, 2004 annual report.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**NOTE F - STATE FOUNDATION REVENUE**

The State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 17.3916 mills for non-homestead property taxes. The State revenue is recognized during the foundation period (currently the fiscal year).

2004-05 Foundation		\$	7,944.00
Less local support:			
Nom-Homestead Tax Value	9,172,126		
Multiplied by mills	17.3916		
Total local support	159,517.95		
Divided by General Education K-6	12.00		
Calculated Local Support			<u>13,293.16</u>

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

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**NOTE G - RECONCILIATION OF R7120 TO REPORTED FEDERAL REVENUES**

The amounts reported as current payments on the R7120, Grant Section Auditors Report prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 14 as follows:

Total current payments per R7120	\$	5,967
Less: School Breakfast Program State		(945)
Plus: USDA Commodities received		1,298
Small Rural School Achievement		17,812
Total Federal Financial Assistance	\$	<u>24,132</u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2005 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

**NOTE H - BUDGETING AND ACCOUNTING**

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2005, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Description	Total Appropriation	Amount of Expenditures	Budget Variances
School Food Service	\$29,100	\$30,301	(\$1,201)
School Food Service	\$27,300	\$27,310	(\$10)
School Food Service	\$22,200	\$22,416	(\$216)

**NOTE I - CONTINGENT LIABILITIES**

Risk Management

Elm River Township School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Elm River Township School District joined together with other school districts currently operating a common risk management and insurance program. Elm River Township School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

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**NOTE I - CONTINGENT LIABILITIES (Continue)**

Elm River Township School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2004, which can be obtained through the School District.

**NOTE J- RECLASSIFICATION**

Certain items in the June 2004 financial statements have been reclassified to conform with the current year presentation.

**REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION**

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**For the Year Ended June 30, 2005**

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 167,267	\$ 165,000	\$ 167,175	\$ 2,175
State sources	-	-	2	2
Federal sources	21,165	20,900	20,851	(49)
TOTAL REVENUE	188,432	185,900	188,028	2,128
EXPENDITURES:				
Instruction	92,239	93,300	90,653	2,647
Supporting services	90,776	92,350	95,318	(2,968)
TOTAL EXPENDITURES	183,015	185,650	185,971	(321)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,417	250	2,057	1,807
OTHER FINANCING SOURCES (USES)				
Incoming transfers - other schools	10,300	2,500	3,364	864
Operating transfers in (out)	(13,500)	(14,000)	(13,970)	(30)
Total other financing sources (uses)	(3,200)	(11,500)	(10,606)	834
NET CHANGE IN FUND BALANCE	2,217	(11,250)	(8,549)	2,641
FUND BALANCE - BEGINNING OF YEAR	111,047	111,047	111,047	-
FUND BALANCE - END OF YEAR	\$ 113,264	\$ 99,797	\$ 102,498	\$ 2,701



**OTHER SUPPLEMENTAL FINANCIAL INFORMATION**

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**GENERAL FUND**  
**DETAIL STATEMENTS OF REVENUE, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2005**

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Taxes:		
Current taxes	\$ 159,518	\$ 154,877
Penalties & interest on delinquent taxes	-	4,734
Total taxes	<u>159,518</u>	<u>159,611</u>
Other local sources:		
Investment revenue	1,763	2,295
Contributions	1,627	1,486
Miscellaneous	<u>4,267</u>	<u>6,552</u>
Total other local sources	<u>7,657</u>	<u>10,333</u>
Total local sources	<u>167,175</u>	<u>169,944</u>
State sources:		
Unrestricted State Aid	<u>2</u>	<u>-</u>
Federal sources:		
Title I	1,114	1,311
Title V	84	137
Title II	1,841	1,838
REAP	<u>17,812</u>	<u>17,048</u>
Total federal sources	<u>20,851</u>	<u>20,334</u>
TOTAL REVENUES	<u>188,028</u>	<u>190,278</u>
EXPENDITURES:		
Instruction:		
Elementary School	71,727	64,200
Added needs:		
Compensatory education	<u>18,926</u>	<u>19,359</u>
Total instruction	<u>90,653</u>	<u>83,559</u>
Instructional staff:		
Improvement of instruction	<u>1,925</u>	<u>975</u>
Total instructional staff	<u>1,925</u>	<u>975</u>
General administration	<u>13,366</u>	<u>15,986</u>
Business-fiscal services	<u>30,301</u>	<u>32,980</u>
Operation & maintenance	<u>27,310</u>	<u>21,490</u>
Pupil transportation	<u>22,416</u>	<u>21,471</u>
Total supporting services	<u>95,318</u>	<u>92,902</u>
TOTAL EXPENDITURES	<u>185,971</u>	<u>176,461</u>
	<u>2005</u>	<u>2004</u>

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**GENERAL FUND**  
**DETAIL STATEMENTS OF REVENUE, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES (Continued)**  
**Year Ended June 30, 2005**

EXCESS OF REVENUES OVER EXPENDITURES	2,057	13,817
OTHER FINANCING SOURCES (USES):		
Incoming transfers - other schools	3,364	10,262
Operating transfer out	<u>(13,970)</u>	<u>(14,070)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(10,606)</u>	<u>(3,808)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(8,549)	10,009
FUND BALANCE, BEGINNING OF YEAR	<u>111,047</u>	<u>101,038</u>
FUND BALANCE, END OF YEAR	<u>\$ 102,498</u>	<u>\$ 111,047</u>

**ELM RIVER TOWNSHIP SCHOOL DISTRICT**  
**SCHOOL SERVICE FUND**  
**DETAIL STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2005**

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Food sales	\$ 1,887	\$ 1,077
State sources	<u>983</u>	<u>1,108</u>
Federal sources:		
School lunch program	1,983	1,701
USDA entitlements	1,060	853
USDA bonus entitlements	<u>238</u>	<u>104</u>
Total federal sources	<u>3,281</u>	<u>2,658</u>
TOTAL REVENUES	<u>6,151</u>	<u>4,843</u>
EXPENDITURES:		
Salaries	11,420	11,824
Employee benefits	2,550	2,266
Purchase services	439	522
Supplies, materials, and other	<u>5,405</u>	<u>4,583</u>
TOTAL EXPENDITURES	<u>19,814</u>	<u>19,195</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(13,663)</u>	<u>(14,352)</u>
OTHER FINANCING SOURCES (USES)		
Operating transfers in (out)	<u>13,970</u>	<u>14,070</u>
NET CHANGE IN FUND BALANCE	<u>307</u>	<u>(282)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>1,197</u>	<u>1,479</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,504</u>	<u>\$ 1,197</u>



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## COMMENTS AND RECOMMENDATIONS LETTER

Board of Education  
Elm River Township School District  
Toivola, Michigan

We have audited the financial statements of Elm River Township School District, for the year ended June 30, 2005, and have issued our report thereon dated October 6, 2005. As part of our audit, we made a study of the internal control structure to the extent we considered necessary and as required by generally accepted auditing standards.

### Insured Deposits

We noted approximately seventy-eight (84%) of the School's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend extending deposits to various financial institutions to decrease the risk of loss to the District.

### Budget Over Expenditures

Comparing actual to budgeted expenditures shows that over expenditures have occurred. P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Over expenditures occurred as follows:

Description	Total Appropriation	Amount of Expenditures	Budget Variances
School Food Service	\$29,100	\$30,301	(\$1,201)
School Food Service	\$27,300	\$27,310	(\$10)
School Food Service	\$22,200	\$22,416	(\$216)

We would like to thank the administrative staff for the excellent cooperation we received during our audit.

This report is intended for the information of management, the cognizant audit agency and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Bruce A. Rukkila, CPA, PC*  
Certified Public Accountants

October 6, 2005